AFFINITY WATER LIMITED

UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2015

(Registered Number 02546950)

Affinity Water Limited

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Introduction

Affinity Water Limited (the 'company') owns and manages the water assets and network in an area of approximately 4,515km^2 split over three regions, comprising eight separate water resource zones (our communities), in the southeast of England. The company is the sole supplier of drinking water in these areas.

We supply on average 900 million litres of water a day to around 3.6 million people. We operate 98 water treatment works to ensure that our water is of the highest quality, distributing our water through a network of over 16,500km of mains.

Our vision, to be the UK's leading community focused water company, reflects the importance we place on our people working within and for the communities of customers we serve, and understanding and responding to the needs of different community groups. We are accountable to them at a local level for how well we provide our services. Our economic regulator, Ofwat, has acknowledged, through awarding us 'enhanced status' for our Price Review 2014 ('PR14') Business Plan, that our vision and approach set us apart from other water companies.

We divide our supply area into eight different communities – based on our existing water resource zones, allowing us to tailor a high quality service to customers at a local level. This differentiation is helping us prioritise our metering programme throughout the 2015-2020 price control period (Asset Management Plan 6, 'AMP6') and into the next price control period as part of our Water Saving Programme. We are starting with those communities where we need to make the most significant reductions in terms of abstraction (refer to page 2 for further details).

Operational performance

In our 2014/15 annual report and financial statements we set out our performance commitments for AMP6, which were shaped by the expectations of our customers. These are necessarily stretching targets to respond to the significant social and environmental challenges we face – a rising population and increased demand for water, as well as a reduction in the availability of water in years ahead. We operate in areas that the Secretary of State for the Environment, Food and Rural Affairs has designated as being under serious water stress.

In the first six months of the current financial year we have made progress in delivering on our ambitious commitments, whilst also preparing for the opening of a competitive retail market for all non-household customers in April 2017 (refer to page 7 for further details).

Operational performance (continued)

Managing our resources and minimising disruption to our customers and communities

We have committed to reducing the amount of water we take from the environment by 42 million litres per day by the end of AMP6. In order to reduce water abstraction in some places we need to find alternative supplies. Towards addressing this challenge, we conducted a trial as part of our Sustainability Reduction Programme to stress-test our ability to import water to the Welwyn area of Hertfordshire from other areas of our network. This trial has given us confidence that when abstraction decreases there will still be enough water in the supply zone for Welwyn to meet demand, without having an adverse effect on our network.

We are committed to strengthening the resilience of our network in order to reduce leakage but also to minimise disruption to our customers and communities caused by burst water mains. We began the delivery of our AMP6 capital programme on the first day of the new price control period, commencing work on renewing the Kingsbury Road trunk main in north London. There had been a number of bursts to this trunk main in recent years causing disruption to local businesses. Pipe-laying was completed within four weeks and the trunk main was returned to service shortly afterwards.

However we recognise that there is more work we need to do to reduce the number of our customers at risk of suffering a prolonged interruption to supply in the event of a major burst. In June and July 2015 we experienced two major incidents affecting supplies to several thousand properties. The largest of these incidents was an unprecedented burst at our Egham Water Treatment Works during a period of very hot weather and high demand on water supply. Over 500 properties experienced an interruption to their supply for more than twelve hours following this incident. This was despite us pumping in extra water from both within and outside our supply area to maintain supply to our customers for as long as possible whilst the burst main was being repaired (refer to page 3 for details of our customer service after this incident). At 30 September 2015 we had exceeded our annual performance target of 320 properties for unplanned interruptions to supply over twelve hours. To improve our performance, we are targeting investment during AMP6 on replacing or renewing the most crucial pipes within our network.

Supporting our mains renewals and sustainability reduction programmes, we are also progressing with our Water Saving Programme. We estimate that around a third of total network leakage occurs from customers' supply pipes. Metering customers may allow these leaks to be more readily identified, potentially saving millions of litres of water every day. We aim to install over 300,000 meters by 2020. In September, we carried out our 7,000th meter installation under the programme, and we have also seen a steady rise in the uptake of our free Home Water Efficiency Check visits as we install more meters.

Supplying high quality water our customers can trust

We have continued to supply high quality water to our customers throughout the period and to achieve this we extensively sampled and analysed the water supply. During the period, our Scientific Services Laboratory was awarded Continued Professional Development Approved Employer status by the Science Council, recognising our commitment to the training and development of our scientists, technicians and samplers.

However we continue to face new pressures and obligations to maintain the high quality of our water. Increased use of existing and new pesticides puts additional stresses on our treatment processes. We are managing the risks using a dual approach, using effective catchment management targeting pesticides at source (refer to page 7 for further details of activities during the period), as well as enhancing our existing treatment and carrying out additional treatment where necessary. We are undertaking trials and design work with a view to establishing a treatment solution for the pesticide, metaldehyde, at both our North Mymms and Iver Water Treatment Works.

Operational performance (continued)

Supplying high quality water our customers can trust (continued)

For health reasons, it is widely recognised that exposure to lead should be minimised. However many older properties still have original lead pipework connecting them to the water mains. To respond to the potential risk of deteriorating water quality, our aim for AMP6 is to have lined or replaced around 30,000 lead communication pipes. As part of our £25 million AMP6 lead pipe replacement programme, we have been proactively investigating the water supply arrangements for high risk groups (nurseries, primary and junior schools, maternity and health centres) across our supply area and have also been lining or replacing all lead pipes in Watford and Finchley. We continue to remove lead pipe on our side of the external boundary stop tap if customers inform us that they have replaced the lead on their side, or if water samples indicate the presence of lead exceeds the regulatory standard.

We have been undertaking a programme of mains flushing in Romney Marsh to remove iron and manganese sediment from local mains pipes. This is part of a wider, more than £10 million package of investment in this area, which includes the construction of a new mains pipeline to improve security of supply and an upgrade of the Denge Water Treatment Works. The new plant uses the latest technology to maintain the highest water standards. In particular the improved removal of naturally occurring iron and manganese will prevent the build up of sediments in the network and reduce the chance of discoloration of supply. Water from the treatment works supplies more than 8,000 homes and businesses with a population of around 17,000.

Providing a value for money service

We want to provide water at affordable prices to all of our customers. Our support for vulnerable customers, who have a low household income or are claiming benefits, continues to grow with increasing numbers supported by our LIFT social tariff (approximately 30,000 customers at 30 September 2015). Customers benefiting from this tariff receive a fixed bill for the year that can be spread over the twelve months.

We also want to provide excellent proactive customer service, which reduces the need for customers to contact us.

We proactively contacted approximately 9,000 customers to inform them about the major operational incident at our Egham Water Treatment Works in July, also providing regular updates on our website and through social media channels. However we still received high levels of ‘low pressure’ and ‘no water’ calls from our customers, and we recognise that we need to do more to keep our customers informed when experiencing prolonged disruptions to supply. We continue to engage with our customers about their experience of our service and to measure their satisfaction level through our ‘Voice of the Customer’ Programme.

In August we launched a new feature on our website, which enables customers included in the Water Saving Programme to track progress relating to meter installation. Once their meter has been installed, they can view their water consumption online and obtain regular bill comparisons. Customers are also able to switch to metered charges at the click of a button, making this quick and easy.

Value for money surveys are being conducted during 2015/16 in order to establish a baseline level of performance, which will enable us to set performance targets for the remainder of AMP6.

Affinity Water Limited

Interim management report (continued)

Financial performance

This is the first year that our financial results are being prepared in accordance with the recognition and measurement requirements of EU-adopted International Financial Reporting Standards ('IFRS'; refer to notes 2 and 23 of the condensed interim financial statements for further details). Our unaudited financial results for the six months to 30 September 2015 are summarised as follows:

	2015 £m	2014 £m
Revenue	**152.7**	148.9
Operating costs	**(113.0)**	(107.6)
Other income	**7.5**	5.1
Operating profit	**47.2**	46.4
Net finance costs	**(19.8)**	(19.0)
Profit before income tax	**27.4**	27.4
Income tax expense	**(5.6)**	(5.2)
Profit for the period	**21.8**	22.2
Dividends	**(28.0)**	(17.8)
Transfer to reserves	**(6.2)**	4.4

Revenue for the first six months of the year was £152.7m, being a 3% increase on the same period last year (2014: £148.9m). The increase is primarily due to warmer weather in summer 2015 leading to higher water consumption compared with summer 2014.

Financial performance (continued)

Total operating costs of £113.0m for the first half of the year were 5% higher than in the same period last year (2014: £107.6m), and are explained in the table below:

Increases/(decreases) in operating costs	**£m**
Inflationary increases	0.6
Lower infrastructure renewals activity at this early stage in AMP6	(5.3)
One-off costs of senior management team changes (refer to page 10)	0.7
Major operational incidents (refer to page 2)	0.7
Higher depreciation due to newly commissioned assets	0.8
Higher costs associated with new customer connections	1.3
Market opening preparation costs (refer to page 7)	1.3
Higher power consumption	1.6
IT transformation costs	2.0
Other increases	1.7
Net increase in operating costs	5.4

The net finance expense of £19.8m was £0.8m higher than the first half of last year, primarily reflecting an increase in finance charges from the £50.0m bond tap issue in July 2014 offset by the impact of lower retail price index ('RPI') inflation on the company's index-linked debt (refer to note 16 of the condensed interim financial statements for further details).

The company's capital expenditure in the period was £29.9m (2014: £37.2m), and occurred principally in our mains renewals, sustainability reduction and lead pipe replacement AMP6 programmes, as well as projects carried forward from the 2010-2015 price control period ('AMP5'). This excludes £6.2m (2014: £10.0m) of infrastructure renewals expenditure, which is treated as an operating cost under the recognition and measurement requirements of IFRS.

In aggregate, asset-related expenditure for the period is behind the run rate allowed in our PR14 Business Plan. This is due to a slower than anticipated start to our metering programme, delays in technology selection for water quality projects and some specific short term delays in some trunk main programmes.

Net cash inflow before tax and financing[1] for the first six months of the year was £33.3m being a 5% increase on the same period last year (2014: £31.7m). The increase is due to £5.4m lower fixed asset net expenditure[2] (£30.5m; 2014: £35.9m) offset by £3.8m lower cash generated from operations (£63.8m; 2014: £67.6m).

Higher equity dividends were paid during the period (£28.0m; 2014: £17.8m) reflecting the significant improvements we made to our business during AMP5, which contributed towards us achieving enhanced status for our PR14 business plan. These resulted in favourable adjustments to our regulatory capital value ('RCV') at the start of AMP6, some of the benefit of which has been distributed to our shareholders through the payment of dividends. Our customers benefitted during AMP5 from the improvements made, which drove up service levels whilst realising £26 million in operating cost net efficiencies, through lower bills and better service.

[1] This "non-GAAP" measure, which is used internally to evaluate our financial performance, is calculated as the total of the following line items per the condensed interim statement of cash flows (refer to page 15): cash generated from operations; purchases of property, plant and equipment; capital contributions; proceeds on disposal of property, plant and equipment; and purchase of intangibles.

[2] Calculated as the total of the following line items per the condensed interim statement of cash flows (refer to page 15): purchases of property, plant and equipment; capital contributions; proceeds on disposal of property, plant and equipment; and purchase of intangibles.

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Interim management report (continued)

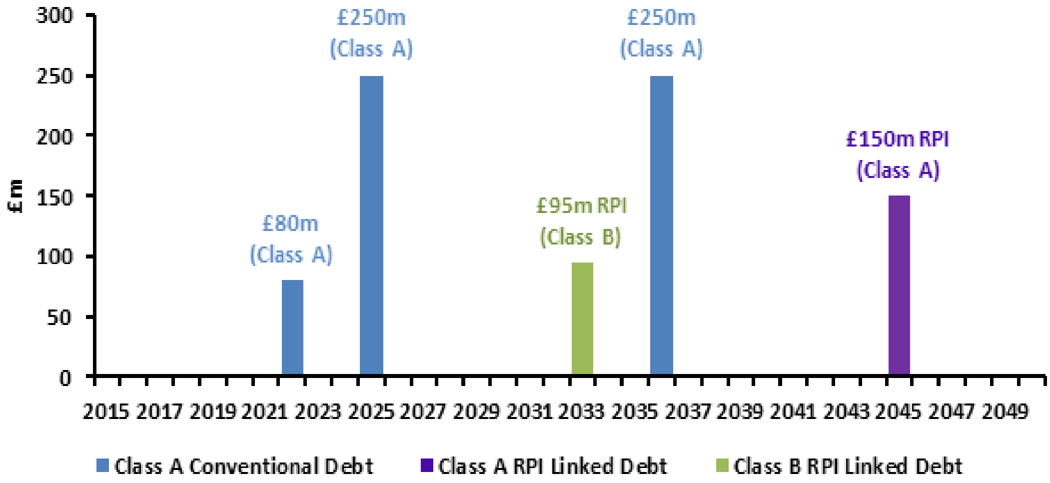
Financial performance (continued)

Financing update

In July 2015 the company refinanced its existing £100.0m syndicated facility provided by five banks. The facility has been replaced with two revolving credit facilities, £60.0m provided by Barclays Bank PLC and £40.0m by Lloyds Bank PLC.

On 29 July 2015, Affinity Water Programme Finance Limited, a wholly owned financing subsidiary of the company, announced that it had conditionally agreed the issuance of an additional £40.0m of its 1.548% RPI linked guaranteed bonds due 2045, which would form part of the same series as, and be fungible with, such bonds. The proposed issuance was priced on 29 July 2015 by reference to the yield on the UK Government 0.75% index-linked gilt due 2047 and was anticipated to be settled within three months (refer to note 21 for details of the related post reporting period event).

The following chart shows the maturity profile of all the bonds issued by the company's subsidiaries at 30 September 2015, which is unchanged from the profile at 31 March 2015, and is prior to the £40.0m tap issue referred to above:



There has been no change during the period in credit ratings for the Class A bonds, rated A3 and A- by Moody's and Standard & Poors respectively.

At 30 September 2015, net debt, as defined in the financial covenants in the company's securitisation documentation ('compliance net debt'), was £807.2m (at 31 March 2015: £788.1m). Gearing of compliance net debt to RCV at 30 September 2015 (76.5%; 31 March 2015: 79.8%) remains within the Board-approved gearing level of 80.0%. This allows sufficient headroom within financial covenants, which are only triggered at a level of more than 90.0%.

Regulatory update

The Open Water Programme

Looking forward to the opening of a competitive retail market for all non-household customers in April 2017, we have been progressing with the internal organisational changes required to our business.

In line with its publicised timetable, Market Operator Services Limited, a company established by the water sector to deliver the IT systems for the new market, has appointed CGI Group Inc. (a global company which specialises in providing end-to-end IT and business process services across a number of industries) to deliver the central market systems required. We are in the process of ensuring our own systems will be able to interact with the central market systems.

Improving resilience in our industry

For AMP6 there has been an industry-wide movement to focus on improving resilience, with both the Department of Environment, Food and Rural Affairs (‘Defra’) and Ofwat consulting with the industry on how best to approach and deliver a more resilient sector. In its consultation entitled “Reliable services for customers - consultation on Ofwat’s new role in resilience”, Ofwat proposed a definition for resilience relating to the water and wastewater sector, as the “ability to cope with, and recover from, disruption, trends and variability in order to maintain services for people and protect the natural environment, now and in the future”.

We consider that improving the resilience of our operations, through efficient sharing of water resources and investment in our network is vital for us to succeed during a time of rapidly increasing population and less predictable climate. The major incident at our Egham Water Treatment Works during the period highlighted areas where we could strengthen the resilience of our operations through targeted investment in our assets. We are carrying out research to better understand customer and stakeholder priorities to ensure our investment is supported by our customers.

Corporate responsibility

Environmental highlights

As a responsible supplier of water we remain focused on reducing our impact on the environment, working closely with a range of strategic partners to meet our challenging targets. In July we joined the Herts and Middlesex Wildlife Trust to remove Himalayan Balsam from the River Lee, a precious chalk stream in our catchment area. Himalayan Balsam is an invasive non-native weed species which spreads rapidly, suppressing the growth of native grasses and other flora in and around water courses. We are committed to reducing the impact of our operations on sensitive habitats, such as chalk streams, and to maintain flow in our local rivers to protect them for future generations.

In August, we hosted a visit from Defra. The visit was an opportunity to share our plans for river restoration, catchment management and our National Environment Programme. It included an overview of our Water Resources Management Plan submissions to Ofwat, and AMP6 and future programmes.

We have been working in partnership with other water companies to develop our understanding of high risk areas for pesticide pollution in the Thames River Basin, sampling weekly at over 200 rivers and streams to identify the areas where our catchment management work will have the greatest benefit. We also took part in Cereals 2015, the leading annual agricultural event for the arable sector in the UK. We joined forces with five other water companies to continue raising awareness of issues affecting the water environment, particularly pesticides getting into rivers. Our aim is to help farmers reduce their pesticide use and we have made good progress with our ‘Zero Metaldehyde’ pilot project in the catchment area for our North Mymms Water Treatment Works, with initial results from the scheme showing positive signs.

Corporate responsibility (continued)

Community engagement

As a community-focused organisation serving local people we want to be involved in projects which benefit the communities we serve. Our Community Engagement Programme provides an opportunity for local charities and community groups to benefit from our resources, expertise and grant funding of up to £2,500 per project. We are especially keen to support specific projects within our supply area which promote sustainable water use, have a positive environmental impact or help disadvantaged groups. During the first half of the year we awarded grants to fifteen organisations based on their commitment and passion to improve the local community.

We aim to increase awareness of water, energy and environmental issues within our communities. Our water saving squad, a dedicated group of volunteer employees, attended various events throughout the period giving advice to local people, along with free water saving devices with the potential to save thousands of litres of water a year, as well as reducing our customers' energy consumption and bills.

Our water saving message is also promoted through our Education Centre in Bushey, where our team welcomes around 6,000 school pupils each year, providing a highly educational and informative learning experience that enriches the school curriculum. In addition, we have been engaging with primary schools to develop their own water efficiency campaigns, empowering children to save water at home and school, while developing water saving habits for the future.

Our people

Safety and health are an integral part of our business. Our vision and performance commitments for AMP6 are all set in the context of our commitment to operating our business without harm to our people and the public through injuries and accidents, or failure to supply wholesome water. We seek to operate our business to the OHSAS18001 safety standard and help our employees to take personal responsibility for their own safety and the safety of others.

We are committed to achieving zero harm. This means everyone getting home safe, and returning fit for work, every day. We are currently implementing a number of initiatives aimed at significantly reducing our accident frequency rate over AMP6. We have already seen a reduction in lost time injuries in the first half of 2015/16 compared to the same period in the previous year.

Continuous improvement and development of our employees is of paramount importance in enabling us to deliver on our AMP6 commitments. We continue to roll out our structured coaching programme to further develop the leadership skills of all our team leaders across the business.

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Interim management report (continued)

Principal risks and uncertainties

We have an established framework for identifying, evaluating and managing the key risks we face. A key aim is to foster a culture in which teams throughout the business manage risks as part of their management of day-to-day operations. Operational risks are recorded and assessed, including existing management processes, and an action plan is prepared, if necessary, for further mitigation. Activities against these plans are monitored on an on-going basis. Operational risks are also ranked by our teams during the year. Based on the rankings given by these teams, the most significant risks are discussed by our senior management and included in the strategic risk register, presented to the Board and the Audit Committee. The latter reviews senior management's work on risk management and reports to the Board on the effectiveness of risk management processes.

The principal risks and uncertainties remain unchanged from those reported in the annual report and financial statements for the year ended 31 March 2015, and are as follows:

- Operational risks:
    - Injuries and accidents to our people and the public
    - Failure to supply wholesome water
    - Unavailability of resources (people and materials)
    - Information security or privacy failure

- Regulatory risks:
    - Adverse changes to the regulatory framework
    - Adverse change in the social and/or political climate
    - Failure to comply with laws, our instrument of appointment and other recognised standards
    - Failure to deliver our business plan obligations
    - Being required to undertake unremunerated activity

- Market reform risk:
    - Failure to prepare for market reform

- Financial risks:
    - Liquidity risk
    - Macro economic risk (interest rate and inflation risk)
    - Breach of and changes to our financial covenants
    - Cost of the defined benefit pension plan
    - Revenue and debtor risk

Further information on these risks and uncertainties can be found on pages 28 to 34 of the company's published annual report and financial statements for the year ended 31 March 2015, which is available at: **stakeholder.affinitywater.co.uk**.

The Board anticipates that the principal risks and uncertainties affecting the activities of the company will remain unchanged for the remaining six months of the financial year.

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Interim management report (continued)

Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This is based on assessment of the principal risks of the company, as detailed on the previous page, and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, and available debt facilities. For this reason, the directors continue to adopt the going concern basis in preparing the condensed interim financial statements.

Related parties

Details of significant related party transactions can be found in note 20. There has been no change to the nature of related party transactions in the first six months of the financial year which has materially affected the financial position or performance of the company.

Governance and leadership

We remain committed to the highest standards of governance and support the principles of good corporate governance set out in the 2014 UK Corporate Governance Code (the 'Code'), effective for the first time this year, and the UK Stewardship Code. Our business is owned by private investors and we therefore apply the principles of the Code in this context. Our Governance Code, updated in March 2015, sets out for our customers, investors, regulators and other stakeholders how we govern and operate our business to high standards of governance and transparency.

As reported in our annual report and financial statements for the year ended 31 March 2015, Simon Cocks joined the Board on 1 June 2015 as Chief Executive Officer bringing with him extensive cross sector experience and a strong track record in leadership roles in utilities. A recruitment process is well underway to appoint two new independent non-executive directors, following the retirement of Baroness Peta Buscombe and Dr Jeffrey Herbert at the Annual General Meeting of the company in September 2015.

We are making changes to our organisation structure so that we can bring to life our community strategy and position ourselves as a leader in our sector. These changes will help us deliver a better service for customers and ensure that we organise ourselves more efficiently in a world where competition and commercial success are going to be the norm.

With this in mind, we made three new appointments to our senior management team in October 2015. Amanda Reynolds joined as the new Director of Customer Relations (Household), bringing with her over 20 years' experience in customer services and a passion for improving the customer experience. David Lee, with a track record in building successful businesses in the water and energy sectors, was appointed as the new Director of Customer Relations (Non-Household). Andrew Ritchie, in his appointment as the new Managing Director of Wholesale Operations, brings a wealth of experience to our business, including extensive hands-on exposure across the full value chain, capital projects and programmes, operations and business development.

Forward-looking statements

Certain statements in this interim management report are forward-looking. Although the company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Affinity Water Limited

Condensed interim income statement for the six months ended 30 September 2015

	Note	**30 September 2015 £000 Unaudited**	30 September 2014 £000 Unaudited
Revenue	6	**152,677**	148,848
Cost of sales		**(84,344)**	(85,430)
Gross profit		**68,333**	63,418
Administrative expenses		**(28,661)**	(22,186)
Other income		**7,492**	5,120
Operating profit	7	**47,164**	46,352
Finance income	8	**1,022**	1,565
Finance costs	8	**(20,828)**	(20,517)
Profit before income tax		**27,358**	27,400
Income tax expense	9	**(5,610)**	(5,152)
Profit for the period		**21,748**	22,248

All profits of the company in the current period and prior period are from continuing operations.

The notes on pages 16 to 39 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of comprehensive income for the six months ended 30 September 2015

	30 September 2015 £000 Unaudited	30 September 2014 £000 Unaudited
Profit for the period	**21,748**	22,248
Other comprehensive income for the period which will not be reclassified to profit or loss:		
Remeasurement of post-employment benefit surplus	**11,498**	(1,469)
Current tax on item that will not be reclassified	**-**	710
Deferred tax on item that will not be reclassified	**(2,300)**	(416)
Other comprehensive income/(expense) for the period, net of tax	**9,198**	(1,175)
Total comprehensive income for the period	**30,946**	21,073

The notes on pages 16 to 39 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of financial position as at 30 September 2015

	Note	30 September 2015 £000 Unaudited	31 March 2015 £000 Unaudited
Assets			
Non-current assets			
Property, plant and equipment	11	**1,238,909**	1,234,907
Goodwill		**14,961**	14,961
Other intangible assets	11	**23,243**	22,593
Investments in subsidiaries		**60**	60
Retirement benefit asset	12	**59,737**	45,098
		1,336,910	1,317,619
Current assets			
Inventories		**1,331**	1,262
Trade and other receivables	13	**131,673**	80,573
Cash and cash equivalents		**35,728**	58,928
		168,732	140,763
Total assets		**1,505,642**	1,458,382
Equity and liabilities			
Equity			
Ordinary shares	14	**26,506**	26,506
Share premium	14	**1,400**	1,400
Capital contribution reserve	14	**30,150**	30,150
Retained earnings		**147,664**	144,718
		205,720	202,774
Liabilities			
Non-current liabilities			
Trade and other payables	15	**86,658**	84,958
Borrowings	16	**838,260**	835,076
Deferred income tax liabilities	17	**203,164**	196,617
Provisions for other liabilities and charges	17	**2,735**	2,748
		1,130,817	1,119,399
Current liabilities			
Trade and other payables	15	**165,668**	130,587
Current income tax liabilities		**3,437**	5,622
		169,105	136,209
Total liabilities		**1,299,922**	1,255,608
Total equity and liabilities		**1,505,642**	1,458,382

The notes on pages 16 to 39 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of changes in equity for the six months ended 30 September 2015

	Share capital £000	Share premium £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**
Balance at 1 April 2015	**26,506**	**1,400**	**30,150**	**144,718**	**202,774**
Profit for the period	**-**	**-**	**-**	**21,748**	**21,748**
Other comprehensive income	**-**	**-**	**-**	**9,198**	**9,198**
Total comprehensive income	**-**	**-**	**-**	**30,946**	**30,946**
Dividends	**-**	**-**	**-**	**(28,000)**	**(28,000)**
Total transactions with owners recognised directly in equity	**-**	**-**	**-**	**(28,000)**	**(28,000)**
Balance as at 30 September 2015	**26,506**	**1,400**	**30,150**	**147,664**	**205,720**
Balance at 1 April 2014	26,506	1,400	30,150	103,715	161,771
Profit for the period	-	-	-	22,248	22,248
Other comprehensive income	-	-	-	(1,175)	(1,175)
Total comprehensive income	-	-	-	21,073	21,073
Dividends				(17,800)	(17,800)
Total transactions with owners recognised directly in equity	-	-	-	(17,800)	(17,800)
Balance as at 30 September 2014	26,506	1,400	30,150	106,988	165,044

The notes on pages 16 to 39 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Condensed interim statement of cash flows for the six months ended 30 September 2015

	Note	**30 September 2015 £000 Unaudited**	30 September 2014 £000 Unaudited
Cash flows from operating activities			
Cash generated from operations	18	**63,826**	67,589
Income taxes paid		**(3,547)**	(3,189)
Interest paid		**(25,224)**	(22,024)
Net cash flows from operating activities		**35,055**	42,376
Cash flows from investing activities			
Purchases of property, plant and equipment		**(30,286)**	(34,615)
Capital contributions		**2,583**	2,407
Proceeds on disposal of property, plant and equipment		**61**	16
Purchase of intangibles		**(2,844)**	(3,657)
Interest received		**231**	111
Net cash used in investing activities		**(30,255)**	(35,738)
Cash flows from financing activities			
Dividends paid	10	**(28,000)**	(17,800)
Repurchase of debentures	16	**-**	(1)
Repayments of borrowings	16	**-**	(17,200)
Proceeds from loan from subsidiary undertaking	16	**-**	58,568
Net cash used in financing activities		**(28,000)**	23,567
Net (decrease)/increase in cash and cash equivalents		**(23,200)**	30,205
Cash and cash equivalents at start of period		**58,928**	16,826
Cash and cash equivalents at end of period		**35,728**	47,031

The notes on pages 16 to 39 are an integral part of these condensed interim financial statements.

Affinity Water Limited

Notes to the condensed interim financial statements

1. General information

The company is a private company and is incorporated and domiciled in the United Kingdom. The address of its registered office is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Refer to note 22 for details of the company's ultimate parent.

These condensed interim financial statements were approved for issue on 26 November 2015.

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2015 were approved by the Board of directors on 23 June 2015 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter and did not contain any statement under section 498 of the Companies Act 2006.

These condensed interim financial statements have been reviewed, but not audited by the independent auditor.

As financial information was reported to the Board, the company's chief operating decision maker, during the current and previous financial period on a combined basis, the company presents its results under a single segment for financial reporting purposes.

2. Basis of preparation

These condensed interim financial statements for the six months ended 30 September 2015 have been prepared in accordance with International Accounting Standard ('IAS') 34: 'Interim financial reporting' ('IAS 34'), as adopted by the European Union ('EU').

The company will prepare its statutory financial statements for the year ending 31 March 2016 in compliance with the requirements of Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101'). Those financial statements will be the first statutory financial statements prepared by the company in accordance with FRS 101.

Under FRS 101, the company applies the recognition and measurement requirements of IFRS, but makes amendments where necessary in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). For further information on the material adjustments on adoption of the recognition and measurement requirements of IFRS, refer to note 23. The adjustments on adoption take account of the requirements and options in International Financial Reporting Standard 1: 'First-time adoption of International Financial Reporting Standards' ('IFRS 1').

The comparative information presented in these condensed interim financial statements has not been subject to an audit.

2.1 Going concern

The directors considered it appropriate to adopt the going concern basis of accounting in preparing the condensed interim financial statements. This is based on assessment of the principal risks of the company (refer to page 9) and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, and available debt facilities.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

3. Accounting policies

The principal accounting policies applied in the preparation of these condensed interim financial statements are set out below.

3.1 Property, plant and equipment

Property, plant and equipment are held at historical cost (or deemed cost for infrastructure assets held on adoption of the recognition and measurement requirements of IFRS) less accumulated depreciation and impairment charges.

Infrastructure assets comprise a network of mains and associated underground pipe-work. Infrastructure assets are held at deemed cost established through an event-driven valuation on adoption of the recognition and measurement requirements of IFRS and subsequent additions are recorded at historical cost less accumulated depreciation and impairment charges.

For accounting purposes the network is segmented into components based on the material used to construct the pipe concerned. The estimated useful economic lives of infrastructure pipes are based on management's judgement and experience, which includes the knowledge and research of the company's dedicated asset management teams. Where management identifies that the actual useful economic life of an asset significantly differs from the estimate used to calculate its depreciation, the depreciation charge is adjusted prospectively.

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is capitalised where it can be reliably measured and it is probable that incremental future economic benefits will flow to the company. The carrying amount of the replaced part is derecognised. Costs of day-to-day servicing of network components are recognised in the income statement as they arise.

Cost for other property, plant and equipment includes own work capitalised comprising the direct costs of materials, labour and applicable overheads.

Borrowing costs directly attributable to the acquisition, construction or production of assets, that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are ready for their intended use.

Property, plant and equipment are depreciated to their estimated residual values over their estimated useful lives using the straight-line method, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives are:

Infrastructure assets

Potable water distribution mains	50-150 years
Raw water pipes	50-150 years

Other property, plant and equipment

Buildings	40-60 years
Operational structures	5-85 years
Fixed plant – short life	3-10 years
– other	10-30 years
Vehicles and mobile plant	3-10 years

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

3. Accounting policies (continued)

3.1 Property, plant and equipment (continued)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in operating profit.

The company is required to evaluate the carrying value of its property, plant and equipment for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review in such circumstances requires management to make subjective judgements concerning the future cash flows, growth rates and discount rates of the cash generating unit ('CGU') under review.

3.2 Intangible assets

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill is not amortised but is reviewed for impairment at least annually. Impairment reviews are also carried out if there is an indication that impairment may have occurred, or, where otherwise required, to ensure that fixed assets are not carried above their estimated recoverable amounts. Goodwill is allocated to the CGU that derives benefit from the goodwill for impairment testing purposes. Impairments are recognised immediately in the income statement.

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets only if they meet the criteria of IAS 38 'Intangible Assets'.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives, which does not exceed five years. Amortisation charged on assets with finite lives is recognised in the income statement in operating costs.

Intangible assets are reviewed for impairment where indicators of impairment exist. Impairments are recognised immediately in the income statement.

Notes to the condensed interim financial statements (continued)

3. Accounting policies (continued)

3.3 Grants and contributions

Grants and contributions received in respect of property, plant and equipment are treated as deferred income and released to cost of sales over the useful economic life of the property, plant and equipment to which they relate. Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in revenue in the income statement in the period that they become receivable.

These grants and contributions are not government grants within the scope of IAS 20: 'Accounting for government grants and disclosure of government assistance'.

3.4 Investment in subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses.

3.5 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The provision for impairment is based on experience and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivables which are considered to be of greater risk and also to trade receivables of greater age.

3.6 Inventories

Inventories are valued at the lower of cost or net realisable value after allowance for obsolete and slow moving items. In accordance with established practice in the water industry, no value has been placed upon the water in reservoirs, mains or in the course of treatment.

3.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Term deposits with original maturities longer than three months that can be redeemed, subject to the interest income being forfeited, are classed as cash and cash equivalents if the deposit is held to meet short term cash needs and there is no risk of a significant change in value as a result of an early withdrawal.

3. Accounting policies (continued)

3.8 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholder's funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholder's funds, respectively.

The current income tax charge is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position.

Deferred taxation is provided in full, using the liability method, on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is only recognised to the extent that it is probable that sufficient taxable profits will be available in the future to utilise it. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

3.9 Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.10 Borrowings

All loans are recognised initially at fair value plus directly attributable transaction costs. The carrying amount of the debt is increased by the amortisation of the finance and transaction costs determined using the effective interest rate in respect of the accounting period and reduced by any payments made in the period. The finance cost recognised in the income statement is allocated to accounting periods over the term of the debt using the effective interest method.

3.11 Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

3. Accounting policies (continued)

3.12 Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business for goods and services provided. The company recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefit will flow to the entity and when specific criteria have been met.

Charges billed to customers for water provided are recognised in the year in which they are earned. An accrual is estimated for unmeasured consumption that has not yet been billed. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. The company does not recognise revenue where historical evidence indicates that the company will probably never be able to collect the revenue billed.

Where an invoice has been raised and payment received but the service has not been provided in the year this will be treated as a payment in advance. The value of such invoices raised will not be recognised within the current year's revenue but will instead be recognised within payables as deferred income.

3.13 Other income

Other income includes all income derived from sources associated with the ordinary activities of the business other than revenue, which is derived from the regulatory activities of the business. It includes rental income and commission relating to the billing and collection of charges in respect of sewerage and infrastructure within the company's supply area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited. It is stated net of value added taxes.

3.14 Interest income

Interest income is recognised using the effective interest method. When a loan receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

3.15 Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases and hire purchase contracts are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included as a liability in the statement of financial position. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

3. Accounting policies (continued)

3.16 Grafham reservoir

Under the Great Ouse Water Act of 1961, the company has an entitlement to water from the Grafham reservoir owned and operated by Anglian Water Services Limited (‘Anglian Water’). The company pays Anglian Water a charge for the supply of water, which covers its share of the overall costs of running Grafham Reservoir. These costs are recognised as an expense in the income statement as incurred.

3.17 Retirement benefits

The company operates a pension plan providing defined benefits based on final pensionable salary. The plan had separate Central, East and Southeast divisions until 31 March 2015 when the Shared Services division was transferred to the company and its pension plan consolidated with these divisions into one final salary section. The assets of the plan are held separately from those of the company.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised immediately in the income statement. When a settlement or a curtailment occurs, the change in the present value of the plan liabilities and the fair value of the plan assets reflect the gain or loss which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains are recognised when all parties whose consent is required are irrevocably committed to the transaction.

The defined benefit pension asset or liability in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

Re-measurement gains and losses arising from changes in actuarial assumptions are charged or credited to shareholder’s funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit asset or liability.

Contributions to the defined contribution section of the plan are recognised in the income statement in the period in which they become payable.

The company also has an obligation to pay pensions to former non-executive directors of predecessor companies. A provision in respect of the obligation is included within the net pension asset or liability.

3.18 Dividend distributions

Dividend distributions to the company’s shareholder are recognised as a liability in the company’s financial statements in the period in which the dividends are approved by the company’s shareholder.

4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the company's accounting policies and the key sources of estimation uncertainty were as follows:

4.1 Critical accounting estimates and assumptions

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on management's judgement and experience, which include the knowledge and research of the company's dedicated asset management teams. Refer to note 11 for the carrying amount of property, plant and equipment and note 3.1 for the useful economic lives for each class of assets.

Measured income accrual

The company records an accrual for measured consumption of water that has not yet been billed (refer to note 13). The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information.

Provision for impairment of trade receivables

The company makes an estimate of the recoverable value of trade receivables and records a provision for impairment based on experience (refer to note 13). This provision is based on, amongst other things, a consideration of actual collection history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Defined benefit pension plan

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions (refer to note 12) reflect historical experience and current trends, and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants. There are no restrictions to the realisability of the surplus relating to the defined benefit section of the pension plan.

4. Estimates (continued)

4.2 Critical judgements in applying the entity's accounting policies

Cost capitalisation

The company capitalises expenditure on its infrastructure assets to property, plant and equipment where such expenditure enhances or increases the capacity of the network, or relates to material replacements of network components. Any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when projects have both elements within them. Refer to note 11 for the carrying amount of property, plant and equipment.

5. Financial risk management and financial instruments

The company's activities primarily expose it to interest rate risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the company's annual financial statements as at 31 March 2015 (refer to note 25 to the financial statements for the year ended 31 March 2015).

There have been no changes in any risk management policies since 31 March 2015.

Fair value of financial assets and liabilities measured at amortised cost

Between 1 April 2015 and 30 September 2015, market interest rates increased, decreasing the fair value of the bonds on-lent from the company's two financing subsidiaries, as follows:

	30 September 2015 £000	31 March 2015 £000
	Unaudited	Unaudited
Non-current	**964,520**	1,006,791

The remaining financial assets and liabilities of the company approximate to their carrying amount.

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

6. Revenue

	Six months ended 30 September 2015 £000	Six months ended 30 September 2014 £000
	Unaudited	Unaudited
Unmeasured supplies	**66,150**	65,037
Measured supplies	**83,893**	81,439
Connection charges	**2,511**	2,109
Chargeable services	**123**	263
	152,677	148,848

7. Operating profit

	Six months ended 30 September 2015 £000	Six months ended 30 September 2014 £000
	Unaudited	Unaudited
Operating profit is stated after charging:		
Water abstraction charges	**2,336**	3,113
Business rates	**8,278**	8,209
Depreciation of tangible fixed assets	**22,856**	22,844
Amortisation of other intangible assets	**2,179**	1,429

These items are included in operating costs in the condensed income statement.

8. Finance income and costs

	Six months ended 30 September 2015 £000	Six months ended 30 September 2014 £000
	Unaudited	Unaudited
Finance income:		
Bank interest income	**232**	112
Net income from post-employment benefits	**790**	1,453
	1,022	1,565
Finance costs:		
Loan from parent company	**(80)**	(80)
Loans from subsidiary undertakings	**(17,283)**	(16,588)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(3,190)**	(3,389)
Other	**(275)**	(460)
	(20,828)	(20,517)
Net finance costs	**(19,806)**	(18,952)

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

9. Income tax

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 March 2016 is 20.5% (the estimated tax rate for the six months ended 30 September 2014 was 18.8%).

10. Dividends

	Six months ended 30 September 2015 £000	Six months ended 30 September 2014 £000
	Unaudited	Unaudited
Ordinary:		
Paid: First interim of 3.40p per share (2014: 4.26p)	**9,000**	11,300
Paid: Second interim of 2.08p per share (2014: 2.45p)	**5,500**	6,500
Paid: Third interim of 5.09p per share (2014: nil)	**13,500**	-
	28,000	17,800

11. Property, plant and equipment ('PPE') and other intangible assets

	PPE £000	**Other intangible assets £000**
	Unaudited	Unaudited
Six months ended 30 September 2015		
Opening net book amount as at 1 April 2015	**1,234,907**	**22,593**
Additions	**27,092**	**2,829**
Disposals	**(234)**	**-**
Depreciation and amortisation	**(22,856)**	**(2,179)**
Closing net book amount as at 30 September 2015	**1,238,909**	**23,243**
Six months ended 30 September 2014		
Opening net book amount as at 1 April 2014	1,199,183	21,571
Additions	34,331	2,843
Disposals	(1,714)	-
Depreciation and amortisation	(22,844)	(1,429)
Closing net book amount as at 30 September 2014	1,208,956	22,985

12. Retirement benefit asset

Defined benefit scheme

The company operates a pension plan (the Affinity Water Pension Plan, 'AWPP') providing benefits based on final pensionable salary. The plan, which had separate Central, East and Southeast divisions until 31 March 2015 when the Shared Services division was consolidated with these divisions into one final salary section, is closed to new members (the two precursor plans closing in April 1996 and September 2004). The assets of the plan are held separately from those of the company. The plan's corporate trustee (the 'Trustee') is a subsidiary of Affinity Water Capital Funds Limited, an intermediate parent of the company. The latest formal valuation of the AWPP, determined by an independent qualified actuary, was at 31 March 2013.

In calculating the liabilities of the AWPP, the following financial assumptions have been used:

	Six months ended 30 September 2015 £000	Six months ended 30 September 2014 £000	Year ended 31 March 2015 £000
	Unaudited	Unaudited	Unaudited
Discount rate	**3.75% pa**	3.75% pa	3.15% pa
Salary growth	**2.95% pa**	3.65% pa	2.90% pa
RPI	**2.95% pa**	3.05% pa	2.90% pa
CPI	**1.95% pa**	2.05% pa	1.90% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22	22
Life expectancy for a female pensioner from age 65 (years)	**25**	24	25
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**24**	24	24
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**27**	27	27

The amounts recognised in the income statement were as follows:

	Six months ended 30 September 2015 £000	Six months ended 30 September 2014 £000
	Unaudited	Unaudited
Current service cost	**(2,541)**	(1,954)
Net income from post-employment benefits	**790**	1,453
	(1,751)	(501)

The amounts recognised in the statement of financial position were as follows:

	30 September 2015 £000	31 March 2015 £000
	Unaudited	Unaudited
Present value of funded obligations	**(339,763)**	(374,124)
Fair value of plan assets	**399,500**	419,222
Asset in the statement of financial position	**59,737**	45,098

Notes to the condensed interim financial statements (continued)

13. Trade and other receivables

	30 September 2015 £000 Unaudited	31 March 2015 £000 Unaudited
Trade receivables	**82,030**	30,719
Amounts owed by group undertakings	**-**	403
Amounts owed by related parties	**747**	309
Other receivables	**2,548**	3,774
Unbilled accrual for metered customers	**40,237**	39,876
Prepayments and accrued income	**6,111**	5,492
	131,673	80,573

Trade receivables are stated after provisions for impairment of £26,672,000 (at 31 March 2015: £24,645,000).

14. Share capital

	Number of shares of £0.10 (thousands)	**Ordinary shares £000**	**Share premium £000**	**Capital contribution reserve £000**	**Total £000**
At 30 September 2015, 1 April 2015, 30 September 2014 and 1 April 2014 (unaudited)	**265,058**	**26,506**	**1,400**	**30,150**	**58,056**

15. Trade and other payables

	30 September 2015 £000 Unaudited	31 March 2015 £000 Unaudited
Non-current:		
Deferred grants and contributions	**86,658**	84,958
Current:		
Trade payables	**9,073**	14,216
Amounts due to group undertakings	**459**	116
Interest payable to subsidiary companies	**5,043**	12,346
Interest payable to intermediate parent company	**-**	80
Interest payable to external parties	**41**	159
Social security and other taxes	**1,140**	1,276
Other payables	**7,397**	12,805
Capital accruals	**13,546**	16,755
Deferred grants and contributions	**1,183**	1,166
Payments received in advance	**33,633**	41,951
Other accruals and deferred income	**94,153**	29,717
	165,668	130,587
	252,326	215,545

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

16. Borrowings and loans

	30 September 2015 £000 Unaudited	31 March 2015 £000 Unaudited
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**255,225**	255,411
Loan from Affinity Water Programme Finance Limited financed by bond issue	**579,451**	576,081
Loan from immediate parent company	**3,550**	3,550
Debenture stock	**34**	34
	838,260	835,076

Movements in borrowings are analysed as follows:

Six months ended 30 September 2015	**£000 Unaudited**
Opening amount as at 1 April 2015	**835,076**
Indexation on loan	**3,190**
Amortisation on loan	**(6)**
Closing amount as at 30 September 2015	**838,260**

Six months ended 30 September 2014	
Opening amount as at 1 April 2014	773,560
Proceeds of new borrowings	58,568
Indexation on loan	3,389
Amortisation on loan	149
Repurchase of debentures	(1)
Closing amount as at 30 September 2014	835,665

The company has the following undrawn committed borrowing facilities:

	30 September 2015 £000 Unaudited	31 March 2015 £000 Unaudited
Floating rate:		
Expiring within one year	**58,000**	58,000
Expiring beyond one year	**100,000**	100,000
	158,000	158,000

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

17. Provisions for other liabilities and charges

Six months ended 30 September 2015	**Deferred tax £000**	**Insurance £000**	**Other £000**	**Total £000**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Opening amount at 1 April 2015	**196,617**	**1,624**	**1,124**	**199,365**
Additional provisions	**6,547**	**-**	**250**	**6,797**
Utilised in the period	**-**	**(263)**	**-**	**(263)**
Closing amount at 30 September 2015	**203,164**	**1,361**	**1,374**	**205,899**
Six months ended 30 September 2014				
Opening amount at 1 April 2014	187,176	1,609	2,217	191,002
Additional provisions	1,634	-	-	-
Utilised in the period	-	(294)	(725)	(1,019)
Closing amount at 30 September 2014	188,810	1,315	1,492	191,617

Insurance

Insurance represents the amount of the company's liability in respect of individual claims. This is based upon data provided by loss adjusters to insurers and is calculated on settlement experience.

Other provisions

Other provisions include £670,000 in relation to unfunded pension liabilities for a former non-executive director, which will be utilised over the 20 years from January 2019. The remaining balance relates to outstanding legal claims at 30 September 2015 anticipated to be utilised within 12 months.

18. Cash generated from operations

	Six months ended 30 September 2015 £000	Six months ended 30 September 2014 £000
	Unaudited	Unaudited
Profit before income tax	**27,358**	27,400
Adjustments for:		
Depreciation of tangible fixed assets	**22,856**	22,844
Amortisation of intangible assets	**2,179**	1,429
Amortisation of deferred grants and contributions	**(700)**	(739)
Profit on disposal of property, plant and equipment	**(61)**	(16)
Loss on disposal of infrastructure assets	**234**	1,714
Post-employment benefits	**(2,351)**	(2,095)
Finance costs - net	**19,806**	18,952
Changes in working capital:		
- Inventories	**(69)**	24
- Trade and other receivables	**(50,798)**	(58,376)
- Trade and other payables	**45,372**	56,452
Cash generated from operations	**63,826**	67,589

Affinity Water Limited

Notes to the condensed interim financial statements (continued)

19. Commitments

The directors have authorised a programme of asset-related expenditure, of which the contracted element not provided for in the financial statements amounts to £27,158,000 (at 31 March 2015: £13,747,000). A proportion of this expenditure not meeting the criteria for capitalisation will be recognised as an operating expense in the income statement in future periods.

20. Related party transactions

The following transactions were carried out with related parties:

Purchases	Nature of Relationship	In respect of	**30 September 2015** Value £000 Unaudited	**30 September 2015** Balance £000 Unaudited	30 September 2014 Value £000 Unaudited	30 September 2014 Balance £000 Unaudited
Affinity Water Finance (2004) PLC	Subsidiary undertaking	Interest on loan	**7,169**	**3,146**	6,502	3,179
Affinity Water Programme Finance Limited	Subsidiary undertaking	Interest on loan	**13,304**	**1,897**	13,474	1,878

Details of the loans from Affinity Water Finance (2004) PLC and Affinity Water Programme Finance Limited, the company's subsidiary undertakings, can be found in note 16.

Details of the dividends paid to Affinity Water Holdings Limited, the company's immediate parent undertaking, can be found in note 10.

There are no other significant related party transactions which require disclosure.

21. Events occurring after the reporting period

On 29 October 2015, Affinity Water Programme Finance Limited, a wholly owned subsidiary of the company, completed a £40,000,000 tap issue of its 1.548% RPI linked guaranteed bond due 2045 on the same terms as the existing 2045 bond. The proceeds of this issue have been lent on to the company on the same terms and are being used to fund its capital expenditure programmes.

In October 2015 changes were enacted to the main rate of corporation tax in the UK from 20% to 19% effective from 1 April 2017 and from 19% to 18% effective from 1 April 2020. The company's deferred tax liability at 30 September 2015 would have been £20,316,000 lower than the amount reported in the condensed interim statement of financial position had these changes been substantively enacted at the reporting period date.

There were no further significant events after the end of the reporting period.

22. Ultimate parent company and controlling party

The immediate parent undertaking of the company is Affinity Water Holdings Limited, a company registered in England and Wales.

Affinity Water Holdings Limited is majority owned by Affinity Water Acquisitions (Investments) Limited, a company registered in England and Wales. Affinity Water Acquisitions (Investments) Limited is the parent undertaking of the smallest and largest group to consolidate the statutory financial statements of this company.

The directors consider that Affinity Water Acquisitions (Investments) Limited is the ultimate holding and controlling company in the United Kingdom.

Copies of the group financial statements of Affinity Water Acquisitions (Investments) Limited for the year ended 31 March 2015 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Affinity Water Acquisitions (Investments) Limited is owned by a consortium of investors led by Infracapital Partners II and North Haven Infrastructure Partners LP. Veolia Environnement S.A. holds a 10% shareholding in Affinity Water Acquisitions (Holdco) Limited, the direct subsidiary of Affinity Water Acquisitions (Investments) Limited, through its subsidiary Veolia Water UK Limited. The directors consider Infracapital Partners II and North Haven Infrastructure Partners LP to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs.

Infracapital Partners II is one of a number of European infrastructure funds managed by M&G Investment Management Limited, a subsidiary of Prudential plc. It was established in 2010 to make investments in income-generative infrastructure assets and businesses, including electricity and gas networks, water companies, transport infrastructure and renewable energy.

North Haven Infrastructure Partners LP is a leading global infrastructure investment fund. It is managed by Morgan Stanley Infrastructure Inc., part of the investment management division of Morgan Stanley. North Haven Infrastructure Partners LP targets core infrastructure assets that provide essential public goods and services to societies across the globe and seeks to improve asset performance using active management.

23. Adoption of the recognition and measurement requirements of IFRS

This is the first year that the company has presented its interim financial statements in accordance with IAS 34. Comparative information for the six month period ended 30 September 2014 has been represented under the recognition and measurement requirements of IFRS; the date of transition being 1 April 2014.

Reconciliation of equity

	1 April 2014 £000 Unaudited	**30 September 2014 £000 Unaudited**	**31 March 2015 £000 Unaudited**
Equity reported under UK GAAP (as previously reported)	352,317	347,297	372,370
Opening adjustments to equity on transition to IFRS recognition and measurement requirements (see Opening adjustments to equity at 1 April 2014 section)	(190,546)	(190,546)	(190,546)
Reversal of goodwill amortisation (refer to note a)	-	227	452
Treatment of infrastructure assets (refer to note b)	-	6,625	3,247
Treatment of grants and contributions (refer to note c)	-	1,137	1,686
Treatment of Grafham reservoir (refer to note e)	-	(124)	(87)
Removal of pension asset limit (refer to note d)	-	428	2,746
Reversal of discounting deferred tax liability under UK GAAP (refer to note f)	-	-	10,435
Other adjustments to deferred tax liability under IAS 12 (refer to note f)	-	-	2,471
Equity reported under IFRS recognition and measurement requirements	**161,771**	**165,044**	**202,774**

Opening adjustments to equity at 1 April 2014

Initial exemptions on first time adoption

In preparing its opening statement of financial position and adjusting amounts reported previously in accordance with UK GAAP, the company has applied IFRS 1, which contains a number of voluntary exemptions and mandatory exceptions from the requirement to apply IFRS retrospectively.

The company has applied the following exemptions and exceptions:

- Estimates – Hindsight has not been used to create or revise estimates. The estimates previously made by the company under UK GAAP have not been revised for the application of IFRS recognition and measurement requirements except where necessary to reflect any difference in accounting policies.
- Business combinations – Under IFRS 1, a first-time adopter may elect not to apply IFRS 3: ‘Business combination’ retrospectively to past business combinations that occurred before the date of transition to IFRS. The company has elected to apply IFRS 3 prospectively from the date of transition. Accordingly, business combinations completed prior to the transition date have not been restated, thus any goodwill arising from business combinations which took place before the date of transition is recognised at the carrying amount based on UK GAAP.
- Deemed cost of property, plant and equipment – As described below, the company has measured the opening position of its infrastructure assets at their deemed cost, derived from an event driven fair value.

23. Adoption of the recognition and measurement requirements of IFRS (continued)

Intangible assets

Under IAS 38: 'Intangible assets', software and development costs, which are capitalised as tangible fixed assets under the previous reporting framework, are classified as intangible assets. This has led to a reclassification of £21,571,000 at 1 April 2014.

Infrastructure assets

Under UK GAAP, the company's infrastructure assets were accounted for in accordance with the renewals accounting provisions of Financial Reporting Standard ('FRS') 15: 'Tangible fixed assets'. Such provisions are not present within IAS 16: 'Property, plant and equipment'.

Under renewals accounting, the infrastructure network was assumed to be a single asset. Expenditure on infrastructure assets relating to increases in capacity or enhancements to the network and on maintaining the operating capability of the network in accordance with defined standards of service was capitalised. The depreciation charged was effectively the estimated anticipated level of annual expenditure required to maintain the operating capability of the network. Grants and contributions relating to the infrastructure network were deducted from the cost of infrastructure assets.

Under IAS 16: 'Property, plant and equipment' this treatment may not be applied. Significant parts within the infrastructure network, principally water pipes, have been identified and useful lives and residual values determined so that each significant part may be depreciated individually.

The opening position of infrastructure assets on transition is their deemed cost, derived from an event-driven fair value established in June 2012 and adjusted for subsequent depreciation, capital expenditure, transfers at cost from assets in the course of construction and disposals.

The significant parts recognised have been based on the material used to construct the water pipe concerned. These have been assigned zero residual values at the end of their useful lives, which range from 50 to 150 years.

Historical grants and contributions at 1 April 2014 of £94,438,000 relating to the enhancement of the infrastructure network have been removed from the cost of infrastructure assets and recognised as deferred income at their amortised amount of £80,643,000 (£1,120,000 due within one year and £79,523,000 due after more than one year), with the amortisation of £13,795,000 recognised in the income statement. £87,734,000 of historical grants and contributions at 1 April 2014 given in compensation for expenses incurred with no future related costs have been removed from the cost of infrastructure assets and recognised in the income statement. Infrastructure assets have been subsequently revalued downwards to the opening position at 1 April 2014 determined through the process described above.

£4,691,000 of costs in work in progress at 1 April 2014 relating to the aforementioned historical grants and contributions recognised in the income statement have been written off from the cost of tangible fixed assets and recognised in the income statement.

23. Adoption of the recognition and measurement requirements of IFRS (continued)

Grafham reservoir

The accounting treatment for the entitlement to water from the Grafham reservoir owned and operated by Anglian Water has been revisited on adoption of the recognition and measurement requirements of IFRS, as International Financial Reporting Interpretations Committee ('IFRIC') 4: 'Determining whether an arrangement contains a lease' provides specific guidance, not provided in UK GAAP accounting standards, on determining whether an arrangement contains a lease.

On assessment, the Grafham arrangement was found not to contain a lease under IFRIC 4: 'Determining whether an arrangement contains a lease'. Furthermore the arrangement did not meet the definition of a joint arrangement in order to be accounted for as such in accordance with IFRIC 11: 'Joint arrangements'. The arrangement is considered to be a purchase contract for the supply of goods under the recognition and measurement requirements of IFRS and the treatment of the arrangement as a quasi-finance lease under UK GAAP has been reversed on adoption of the recognition and measurement requirements of IFRS. This led to a reduction in current liabilities of £1,005,000 and in non-current liabilities of £18,396,000 at 1 April 2014.

Retirement benefit obligations

Under UK GAAP, the company applied an asset limit to its net pension asset at 1 April 2014 of £3,500,000. This asset limit has been removed on assessment of the pension assets and liabilities under IFRIC 14: 'The limit on a defined benefit asset, minimum funding requirements and their interaction', as the company has an unconditional right to a refund of surplus in the event of a plan wind-up.

In addition, IAS 19: 'Employee benefits' requires that pension assets or liabilities are presented gross of the related deferred tax.

Deferred tax

Under UK GAAP, the company had elected to apply discounting to its deferred tax liability. Under IAS 12: 'Income taxes', discounting is not permitted. The impact of eliminating discounting from the accounting for deferred tax is to increase the deferred tax liability at 1 April 2014 by £44,169,000.

IAS 12: 'Income taxes' takes a different approach to deferred tax from that applied by FRS 19: 'Deferred tax'. Under IAS 12: 'Income taxes' deferred tax must be provided for on all temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, whereas under FRS 19: 'Deferred tax' deferred tax must be provided for on timing differences between the treatment of items in the tax computation and the income statement. This change in approach results in deferred tax provisions under IAS 12 for items which under FRS 19: 'Deferred tax' would be permanent differences and hence would not be provided for.

The difference in approach results in deferred tax being provided on previous revaluations to the tangible fixed assets owned by the company, including those revalued prior to the business combination with Affinity Water East Limited and Affinity Water Southeast Limited. For the purposes of IAS 12, the revaluation of the assets results in an increase in their carrying amount on the statement of financial position with no corresponding increase in their tax base, as tax relief is not given for the revalued amount, therefore giving rise to a temporary difference on which a deferred tax liability is recognised. The impact on the company's statement of financial position under the recognition and measurement requirements of IFRS is to increase the deferred tax liability at 1 April 2014 by £101,573,000.

Other IAS 12 adjustments result in a decrease in the deferred tax liability at 1 April 2014 of £4,146,000.

23. Adoption of the recognition and measurement requirements of IFRS (continued)

Deferred tax (continued)

The net impact of the above adjustments, and the reclassification of the deferred tax on pension asset of £622,000 from the retirement benefit obligation to deferred tax provisions, is to increase the deferred tax liability as at 1 April 2014 by £142,218,000.

Reconciliation of total comprehensive income

	Six months ended 30 September 2014 £000 Unaudited	Year ended 31 March 2015 £000 Unaudited
Total comprehensive income for the financial period under UK GAAP	**12,780**	**50,853**
Adjustments to profit for the period		
Reversal of goodwill amortisation (refer to note a)	**227**	**452**
Treatment of infrastructure assets (refer to note b)	**6,625**	**3,247**
Treatment of grants and contributions (refer to note c)	**1,137**	**1,686**
Treatment of Grafham reservoir (refer to note e)	**(124)**	**(87)**
Application of IAS 19 (revised) (refer to note d)	**-**	**(2,131)**
Reversal of discounting deferred tax liability under UK GAAP (refer to note f)	**-**	**10,435**
Other adjustments to deferred tax liability under IAS 12 (refer to note f)	**-**	**2,471**
Total adjustments to profit for the period	**7,865**	**16,073**
Adjustments to other comprehensive income		
Application of IAS 19 (revised) (refer to note d)	**-**	**2,131**
Removal of pension asset limit (refer to note d)	**428**	**2,746**
Total adjustments to other comprehensive income	**428**	**4,877**
Total comprehensive income for the financial period under IFRS recognition and measurement requirements	**21,073**	**71,803**

a) Intangible assets

Software and development costs with a net book value of £22,593,000 at 31 March 2015, which are capitalised as tangible fixed assets under UK GAAP, are reclassified as intangible assets under IAS 38: 'Intangible assets'. The change in treatment does not have an impact on net profit for the year ended 31 March 2015 or for the six month period ended 30 September 2014.

£3,657,000 of software and development expenditure has been reclassified in the statement of cash flows for the six month period ended 30 September 2014 from purchases of property, plant and equipment to purchases of intangible assets.

Goodwill is considered to have an indefinite useful economic life under IAS 38: 'Intangible assets'. Therefore amortisation of £452,000 has not been recognised in the income statement for the year ended 31 March 2015 (six month period ended 30 September 2014: £227,000) under IFRS recognition and measurement requirements.

Notes to the condensed interim financial statements (continued)

23. Adoption of the recognition and measurement requirements of IFRS (continued)

b) Infrastructure assets

As described previously, the renewals accounting provisions of FRS 15: ‘Tangible fixed assets’ are not present in IAS 16: ‘Property, plant and equipment’. The infrastructure renewals charge of £36,092,000 (six month period ended 30 September 2014: £24,014,000) recognised in cost of sales and infrastructure renewals expenditure of £36,092,000 (six month period ended 30 September 2014: £16,838,000) included within tangible fixed assets under UK GAAP for the year ended 31 March 2015 are not recognised in financial statements prepared under IFRS recognition and measurement requirements.

Expenditure on infrastructure assets during the year ended 31 March 2015 relating to increases in capacity, enhancements or material replacements of network components (£17,120,000; six month period ended 30 September 2014: £6,814,000) is capitalised to tangible fixed assets in accordance with IAS 16: ‘Property, plant and equipment’ with the remaining amount (£18,972,000; six month period ended 30 September 2014: £10,024,000) being recognised within cost of sales in financial statements prepared under IFRS recognition and measurement requirements. Furthermore, £12,376,000 of expenditure has been reclassified in the statement of cash flows for the six month period ended 30 September 2014 from purchases of property, plant and equipment to reduce cash generated from operations.

Infrastructure assets are depreciated on a straight-line basis over their useful economic lives in financial statements prepared under IFRS recognition and measurement requirements, and are:

Potable water distribution mains	50-150 years
Raw water pipes	50-150 years

Depreciation of £11,203,000 for the year ended 31 March 2015 (six month period ended 30 September 2014: £5,650,000) is recognised in cost of sales in financial statements prepared under IFRS recognition and measurement requirements, together with the costs of abandoning infrastructure assets before the end of their useful economic lives (£2,670,000; six month period ended 30 September 2014: £1,714,000).

The net impact of the change in treatment of infrastructure assets is to increase net profit for the year ended 31 March 2015 under the recognition and measurement requirements of IFRS by £3,247,000 (six month period ended 30 September 2014: £6,625,000).

23. Adoption of the recognition and measurement requirements of IFRS (continued)

c) Grants and contributions

£98,120,000 of grants and contributions netted against infrastructure assets at 31 March 2015 under UK GAAP relating to the enhancement of the infrastructure network are removed from the cost of infrastructure assets and recognised as deferred income at their amortised amount of £83,099,000 in financial statements prepared under IFRS recognition and measurement requirements, with amortisation of £1,227,000 recognised in net profit for the year ended 31 March 2015 (six month period ended 30 September 2014: £616,000).

£92,430,000 of grants and contributions at 31 March 2015 netted against infrastructure assets at 31 March 2015 under UK GAAP given in compensation for expenses incurred with no future related costs are removed from the cost of infrastructure assets and recognised in the income statement in financial statements prepared under IFRS recognition and measurement requirements. £4,695,000 relating to the year ended 31 March 2015 (six month period ended 30 September 2014: £2,109,000) is recognised in revenue in the income statement prepared under IFRS recognition and measurement requirements with associated expenditure of £4,236,000 (six month period ended 30 September 2014: £1,588,000) recognised in cost of sales.

Infrastructure assets are subsequently revalued downwards to their position at 31 March 2015 determined through applying the treatment described in the paragraphs preceding those relating to the treatment of grants and contributions to the opening position at 1 April 2014.

The net impact of the change in treatment of grants and contributions is to increase net profit for the year ended 31 March 2015 under IFRS by £1,686,000 (six month period ended 30 September 2014: £1,137,000).

£4,275,000 of cash received relating to grants and contributions given in compensation for expenses incurred with no future related costs has been reclassified in the statement of cash flows for the six month period ended 30 September 2014 from capital contributions to increase cash generated from operations. £1,587,000 of associated expenditure has also been reclassified in the statement of cash flows for the six month period ended 30 September 2014 from purchases of property, plant and equipment to reduce cash generated from operations.

d) Retirement benefit obligations

Under UK GAAP, the company applied an asset limit to its net pension asset at 31 March 2015 of £6,932,000. This asset limit and the associated deferred tax liability of £1,386,000 are removed on assessment of the pension assets and liabilities under IFRIC 14: 'The limit on a defined benefit asset, minimum funding requirements and their interaction'. The reversal of the movement in the asset limit net of deferred tax in the year ended 31 March 2015 (£2,746,000; six month period ended 30 September 2014: £428,000) increases other comprehensive income under recognition and measurement requirements of IFRS.

Under IAS 19 (revised): 'Employee Benefits' the expected return on scheme assets has been made equal to the discount rate used to calculate present value of scheme liabilities. The impact is a £2,131,000 reclassification between profit and other comprehensive income in the year ended 31 March 2015 (six month period ended 30 September 2014: £nil).

In addition, IAS 19: 'Employee benefits' requires that pension assets or liabilities are presented gross of the related deferred tax amounting to a deferred tax liability of £9,019,000 at 31 March 2015 (at 30 September 2014: £1,738,000).

23. Adoption of the recognition and measurement requirements of IFRS (continued)

e) Grafham reservoir

The treatment of the arrangement as a quasi-finance lease under UK GAAP is reversed in financial statements prepared under IFRS recognition and measurement requirements. This leads to a reduction in current liabilities of £1,201,000 and in non-current liabilities of £19,600,000 at 31 March 2015.

As a result of treating the arrangement as a purchase contract for the supply of goods, an additional £1,029,000 of costs relating to the arrangement are recognised in cost of sales in the income statement for the year ended 31 March 2015 (six month period ended 30 September 2014: £644,000) prepared under IFRS recognition and measurement requirements. This includes a reclassification of £942,000 (six month period ended 30 September 2014: £520,000) of costs recognised as interest payable in the income statement for the year ended 31 March 2015 prepared under UK GAAP. £1,019,000 (six month period ended 30 September 2014: £440,000) of depreciation charged on expenditure capitalised in tangible fixed assets under UK GAAP is reclassified to bulk water purchases within cost of sales in financial statements prepared under IFRS recognition and measurement requirements. The change in treatment of this arrangement reduces net profit for the year ended 31 March 2015 by £87,000 (six month period ended 30 September 2014: £124,000) under recognition and measurement requirements of IFRS.

The impact of this adjustment on the statement of cash flows for the six month period ended 30 September 2014 is not material.

f) Deferred tax

Under IAS 12: 'Income taxes', discounting is not permitted. The impact of reversing the decrease in discounting of the deferred tax liability under UK GAAP at 31 March 2015 is to reduce the deferred tax charge under International Accounting Standard 12: 'Income taxes' by £10,435,000 for the year ended 31 March 2015.

Other adjustments result in a further £2,471,000 reduction of the deferred tax charge for the year ended 31 March 2015 under IAS 12: 'Income taxes'.

The impact of applying IAS 12 for the six month period ended 30 September 2014 is not material.

Cash and cash equivalents

Under UK GAAP, the company presented £15,000,000 of cash deposits with a maturity of greater than one day but less than twelve months within liquid resources at 31 March 2015 for the purposes of the statement of cash flows. These cash deposits are included as cash and cash equivalents within the statement of cash flows prepared under IAS 7: 'Statement of cash flows'. Refer to note 3.7 for details of the company's cash and cash equivalents accounting policy under recognition and measurement requirements of IFRS.

Affinity Water Limited

Statement of directors' responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union, and that the interim management report includes a fair review of the information required by the Disclosure and Transparency Rule ('DTR') 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Affinity Water Limited are listed in the company's annual report and financial statements for the year ended 31 March 2015, with the exception of the following changes in the period: Simon Cocks was appointed on 1 June 2015, Georgina Dellacha resigned on 30 July 2015, and Dr Jeffrey Herbert and Baroness Peta Buscombe retired on 30 September 2015. A list of current directors is maintained on the governance pages of the company's website: **www.affinitywater.co.uk**.

By order of the Board

Duncan Bates

Director

26 November 2015